# STATE OF NEW MEXICO 2009 SEP - 3 A 7: 58 ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT OIL CONSERVATION DIVISION

APPLICATION OF CIMAREX ENERGY CO. FOR A NON-STANDARD OIL SPACING AND PRORATION UNIT AND COMPULSORY POOLING, LEA COUNTY, NEW MEXICO.

Case No. 14,368

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### RESPONSE OF CIMAREX ENERGY CO. IN OPPOSITION TO MOTIONS TO DISMISS

Cimarex Energy Co. ("Cimarex") submits this response in opposition to the motions to dismiss filed by Fuel Products, Inc. ("Fuel"), Pear Resources ("Pear"), and Hyde Oil and Gas Corporation ("Hyde"). In support of its response, Cimarex states:

- 1. The Division has long required operators who seek to force pool interest owners into a well unit to propose the well by a letter together with an AFE.
- 2. Recently, by Order No. R-13155, entered on August 11, 2009, the Division added a requirement that an operator include a form of JOA with a proposal letter.
- 3. In these three cases, Cimarex seeks to force pool certain interest owners for purposes of drilling horizontal Bone Spring wells.
- 4. Fuel, Pear, and Hyde have filed their motions to dismiss, essentially stating that Cimarex has failed to seek their voluntary joinder in good faith. Cimarex asserts that it has negotiated in good faith and has submitted proper well proposals to Fuel, Pear, and Hyde.
- 5. Attached hereto as **Exhibit A** is the affidavit of Hayden P. Tresner, the landman for Cimarex in this prospect. This affidavit shows the following:
  - a. Cimarex has been in contact with Fuel, Pear, and Hyde since mid-June 2009 by e-mail, telephone, and in person. **Exhibit A-1**.

- b. Cimarex submitted proposal letters, with AFE's to Fuel, Pear, and Hyde on July 17, 2009. **Exhibit A-2**. The proposal letters validly described the wells' locations and well units.
- c. Cimarex subsequently submitted a JOA and farm out agreement to Fuel, Pear, and Hyde in August 2009. Exhibit A-1.

These documents show that Cimarex has, in good faith, negotiated with Fuel, Pear, and Hyde to obtain their voluntary joinder in the three wells before the pooling applications were filed.

- 6. The reliance of Fuel, Pear, and Hyde in Order No. R-13155 is misplaced, in the following respects:
  - a. Order No. R-13155 involved a case where <u>no</u> well proposal was sent by the operator before the pooling applications were filed. In the present cases all parties received a well proposal before the applications were filed.
  - b. Prior to the entry of Order No. R-13155 there was no requirement to submit an operating agreement with a well proposal. The order should not be applied retroactively to Cimarex or other operators. In addition, a JOA has been submitted to all parties.
- 7. Cimarex has complied with Division requirements on well proposals required in force pooling proceedings. Thus, these cases should not be dismissed. Since the parties are in discussions, the cases should simply be continued to allow further discussions.

WHEREFORE, Cimarex requests that the motions filed by Fuel, Pear, and Hyde be denied.

James Bruce

Post Office Box 1056

Respectfully submitted,

Santa Fe, New Mexico 87504

(505) 982-2043

Attorney for Cimarex Energy Co.

### **CERTIFICATE OF SERVICE**

I hereby certify that a copy of the foregoing pleading was hand delivered the following counsel of record this Zuo day of September, 2009:

William F. Carr Holland & Hart LLP 1 Guadalupe Plaza Santa Fe, New Mexico 87501

James Bruce

## STATE OF NEW MEXICO ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT OIL CONSERVATION DIVISION

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### AFFIDAVIT OF HAYDEN P. TRESNER

Hayden P. Tresner, being duly sworn upon his oath, deposes and states:

- 1. I am a landman for Cimarex Energy Co. ("Cimarex"), and have personal knowledge of the matters stated herein.
- 2. I originally contacted the working interest owners in June 2009 regarding this prospect. I have been in constant contact with the interest owners since that date. Since the day the proposal letters were mailed, I have had approximately five (5) phone conversations with each interest owner. My email correspondence with the interest owners is attached as **Exhibit 1**.
- 3. By letters dated July 17, 2009 I proposed the subject wells to the working interest owners in the subject well units. Exhibit 2.
- 4. On August 18, 2009 I e-mailed the interest owners a proposed operating agreement. On August 26, 2009 I e-mailed the interest owners a farm out proposal. This proposal was initially hand delivered to Allen Byars of Pear Resources at our first meeting on June 16, 2009 at Pear's office. The interest owners have informed me that they desire to see the results of the first well, and then decide how to participate in subsequent wells.
- 5. Cimarex is in the process of putting together its drilling program for late 2009 early 2010, which covers approximately eight (8) wells. Thus, it needs to secure agreements from working interest owners so that it can drill its proposed wells on a predictable time frame and minimize well costs.

EXHIBIT A

### <u>ACKNOWLEDGEMENT</u>

STATE OF TEXAS )	
COUNTY OF MIDLAND )	
SUBSCRIBED AND SWORN TO before me Hayden P. Tresner.	e this day of September, 2009 by
My Commission Expires: October 31, 2012	Samalle Spiner
SAMATHA SPENCER Notary Public, State of Texas My Commission Expires October 31, 2012	

From: Hayden Tresner

Sent: Wednesday, August 26, 2009 11:20 AM

To: 'pearresources'; vfmid@worldnet.att.net; vfmid@att.net

Subject: FO

### Gentlemen:

Attached is our proposed FO. This form is identical to that executed by the other WI owners. However, I would need to revise the Exhibit "A" because some of your tract descriptions and associated depths would be a little different (and I'm working to get your depths limited to base of the Bone Spring formation). Please let me know what you decide to do and I'll get with the title atty. to finalize the exhibit.

Thank you,



Hayden P. Tresner
Landman-Permian Basin Exploration
Cimarex Energy Co.
600 N. Marienfeld, Ste. 600
Midland, Texas 79701
(432) 571-7800 Phone
(432) 571-7856 Direct
(432) 571-7840 Fax
htresner@cimarex.com

A-(

----Original Message----

From: Hayden Tresner

Sent: Tuesday, August 18, 2009 2:21 PM

To: blair hamburg; vfmid@worldnet.att.net; 'vfmid@att.net'; 'pearresources';

jgoodwin@moncrieffaxel.com
Subject: Proposed Mallon OA

### Ladies and Gentlemen:

Attached is Cimarex's proposed OA for Section 34-195-34E, Lea Co., New Mexico. I am still waiting on some decisions to be made about interests so additional work needs to be done to the Exhibit "A", which will, hopefully, be completed today. Please let me know what you think and I'll get my management to sign, and then distribute for your execution.

Regards,

Hayden P. Tresner
Landman-Permian Basin Exploration
Cimarex Energy Co.
600 N. Marienfeld, Ste. 600
Midland, Texas 79701
(432) 571-7800 Phone
(432) 571-7856 Direct
(432) 571-7840 Fax
htresner@cimarex.com

### **Hayden Tresner**

From:

Havden Tresner

Sent:

Friday, July 17, 2009 2:32 PM

To:

'pearresources'; vfmid@att.net

Subject: Attachments: Mallon Proposals Section 34-19S-34E, Lea Co., New Mexico

Well Proposal-Mallon 34 Federal Com No. 18.pdf; Well proposal-Mallon 34 Federal No.

19.pdf; Weil proposal-Mallon 34 Federal No. 20.pdf

### Gentlemen:

Please see attached well proposals for remaining locations in the captioned section.

Thank you,



### Hayden P. Tresner

Landman-Permian Basin Exploration Cimarex Energy Co. 600 N. Marienfeld, Ste. 600 Midland, Texas 79701 (432) 571-7800 Phone (432) 571-7856 Direct (432) 571-7840 Fax htresnen@cimarex.com

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### **Hayden Tresner**

From: Sent:

Hayden Tresner

To:

Wednesday, July 01, 2009 4:44 PM 'pearresources'; vfmid@att.net

10: Subject:

ÉW:

Attachments:

20090701161133046.pdf

#### Gentlemen:

Please see attached. Also, I'm preparing the FO tomorrow. Are you interested in farming us in under all of Section 34 and 35? I've been able to locate the information to provide us answers to the questions we had about your interests in the previous wells that Mallon drilled and would be happy to discuss with you. Basically found the OA and a FO between Mallon and El Paso which the wells were drilled under. Please let me know what you decide so I can prepare the FO accordingly. Thank you.

Hayden P. Tresner
Landman-Permian Basin Exploration
Cimarex Energy Co.
600 N. Marienfeld, Ste. 600
Midland, Texas 79701
(432) 571-7800 Phone
(432) 571-7856 Direct
(432) 571-7840 Fax
htresner@cimarex.com

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----Original Message----

From: MidlandScanner@cimarex.com [mailto:MidlandScanner@cimarex.com]

Sent: Wednesday, July 01, 2009 3:12 PM

To: Hayden Tresner

Subject:

This E-mail was sent from "RNPA8FD59" (Aficio MP C3000).

Scan Date: 07.01.2009 16:11:32 (-0400) Queries to: <a href="mailto:MidlandScanner@cimarex.com">MidlandScanner@cimarex.com</a>

### **Hayden Tresner**

From:

Hayden Tresner

Sent: To: Thursday, June 18, 2009 3:24 PM Hayden Tresner; vfmid@att.net

Subject:

RE: Mallon 34 Federal No. 16 (reentry)

My email below did not reach all intended recipients on the first try, Mr. Gahr, please see below.



### Hayden P. Tresner

Landman-Permian Basin Exploration Cimarex Energy Co. 600 N. Marienfeld, Ste. 600 Midland, Texas 79701 (432) 571-7800 Phone (432) 571-7856 Direct (432) 571-7840 Fax htresner@cimarex.com

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From: Hayden Tresner

**Sent:** Thursday, June 18, 2009 3:17 PM **To:** pearresources; vsmid@att.net

Subject: Mallon 34 Federal No. 16 (reentry)

Mr. Byars:

As we discussed, there are no documents in any of our well files that suggest your predecessor (El Paso) should have had the opportunity to non-consent the captioned well which was clearly drilled on land that is not part of the contract area covered by the only documented JOA in which El Paso and its successor to title are a party to. Therefore, Cimarex has applied to force pool the interest of Pear Resources in the spacing unit dedicated to our proposed reentry.

As you are aware, in addition to our proposed reentry, Cimarex has plans to drill as many as seven grassroots wells in the Bone Spring formation in Sections 34 and 35-19S-34E, Lea Co., New Mexico. According to our title research, Pear will have an interest in each of our proposed spacing units. I wanted to make you fully aware of the situation because you indicated that Pear had plans to divest its interest in the area. It's possible that Cimarex would be interested in buying your lease position but we obviously could not complete the acquisition before our scheduled spud date, so we must take the necessary steps to secure the interests of all non-committed WI interest owners in the spacing unit dedicated to our proposed reentry. However, our offer for a farmout of your interest still stands. Please let me know of any new developments on your end.

Thank you,



### Hayden P. Tresner

Landman-Permian Basin Exploration Cimarex Energy Co. 600 N. Marienfeld, Ste. 600 Midland, Texas 79701 (432) 571-7800 Phone (432) 571-7856 Direct (432) 571-7840 Fax htresner@cimarex.com

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From: pearresources [mailto:pearresources@att.net]

Sent: Tuesday, June 16, 2009 12:52 PM

**To:** Hayden Tresner **Subject:** Re: Mallon F/O

Here is the proper signature info.

— Original Message — From: Hayden Tresner

To: <u>Hayden Tresner</u>; <u>pearresources@att.net</u> Sent: Tuesday, June 16, 2009 12:14 PM

Subject: RE: Mallon F/O

Mr. Byars

In what capacity will you execute the F/O? Thanks,



### Hayden P. Tresner

Landman-Permian Basin Exploration Cimarex Energy Co. 600 N. Marienfeld, Stc. 600 Midland, Texas 79701 (432) 571-7800 Phone (432) 571-7856 Direct (432) 571-7840 Fax htresner@cimarex.com

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From: Hayden Tresner

Sent: Tuesday, June 16, 2009 10:21 AM

**To:** pearresources@att.net **Subject:** Mallon F/O

### Allen:

I'm in the process of verifying the property descriptions for the above-referenced F/O. I should have it over to you shortly and will call to discuss after I send.

Thank you,



### Hayden P. Tresner

Landman-Permian Basin Exploration Cimarex Energy Co. 600 N. Marienfeld, Ste. 600 Midland, Texas 79701 (432) 571-7800 Phone (432) 571-7856 Direct (432) 571-7840 Fax htresner@cimarex.com

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Cimarex Energy Co.

600 N. Marienfeld St. Suite 600 Midland, Texas 79701

PHONE 432.571.7800

July 17, 2009

CIMAREX

<u>Via: U.S. Certified Mail</u> <u>Return Receipt No. 7007 0710 0003 0317 4073</u>

Fuel Products, Inc. Attn: Thomas M. Beall P.O. Box 3098 Midland, Texas 79702

Via: E-mail U.S. Certified Mail
Return Receipt No. 7007 0710 0003 0317 4080

MGT Partners I, L.P., et al. Attn: John Stroud 13727 Noel Road, Suite 500 Dallas, Texas 75240

Via: E-mail and U.S. Certified Mail
Return Receipt No. 7007 0710 0003 0317 4059

Pear Resources Attn: Alan Byars/Jerry M. Gahr P.O. Box 11044 Midland, Texas 79702

<u>Via: U.S. Certified Mail</u> <u>Return Receipt No. 7007 0710 0003 0317 4097</u>

Providence Minerals, LLC 14860 Montfort Drive, Suite 209 Dallas, Texas 75254

Re: Mallon 34 Federal Com No. 18 S/2S/2 Section 34-T19S-34E Lea County, New Mexico <u>Via: E-mail U.S. Certified Mail</u> <u>Return Receipt No. 7007 0710 0003 0317 4066</u>

Hyde Oil and Gas Corporation Attn: Blair Hamburg 6300 Ridglea Place, Suite 1018 Fort Worth, Texas 76116

Via: E-mail U.S. Certified Mail
Return Receipt No. 7007 0710 0003 0317 4035

U.S. Trust, Bank of America Attn: Janet M. Cunningham, CPL P.O. Box 2546 Fort Worth, Texas 76113-2546

<u>Via: U.S. Certified Mail</u> <u>Return Receipt No. 7007 0710 0003 0317 4042</u>

W.A. Moncrief, Jr. Trust Attn: Monita Cebell 950 Commerce Street Fort Worth, Texas 76102-5418

<u>Via: U.S. Certified Mail</u> <u>Return Receipt No. 7007 0710 0003 0317 4103</u>

Michael J. Moncrief 2008 Trust A Attn: Jerry Goodwin, CPA 777 Taylor Street, Suite 1030 Fort Worth, Texas 76102

A. LEXHIBIT L

Dear Working Interest Owners:

Cimarex Energy Co. ("Cimarex") proposes to drill the above-captioned well according to the project described in the enclosed AFE. If you choose to participate in the drilling of the well, please sign and return a copy of the AFE to the undersigned. I will send Cimarex's proposed form of operating agreement to you upon receipt of your approved AFE. Alternatively, if you choose not to participate,



Cimarex would be interested in acquiring a farmout of your leasehold interest in Section 34 of the above-captioned township and range.

Please do not hesitate to contact me if there is anything further that you should require in regard to this matter. Thank you.

Sincerely,

Cimarex Energy Co.

Hayden P. Tresner

Landman



### **Authorization For Expenditure**

Company Entity Gimarex Energy Co.	D	ate Prepared July 16, 2009	
Region Well Name	Well No.   Prospect or Field Name	Property Number	Orilling AFE No.
Permian Mallon 34 Federal Com	18	<u> </u>	
Location	County	State	Týpe Well 🥶 🤭 😞
S/25/2 Section 34-195-34E	Lea	NM O	il x Expl x as Prod
			us irrou
A LA COLLEGE OF THE COLUMN TWO IS NOT THE CO	Est:Start Date Es	t: Comp Date	Formation Est. TD
Original Estimate  Revised Estimate  O			Bone Spring 15,046'
Supplemental Estimate			
Project Description Onlil and complete a third Bone Spring horizontal we	il. 11200 Pilat 10840 TVD/15046 MD (4500 VS		
Intangibles	Dry Hole Cost	After Casing Poli	nt Completed Well Cost
Drilling Costs	\$1,659,200		\$1,659,200
Completion Costs	\$1,659,200	\$1,151,000 <b>\$1,151,000</b>	\$1,151,000 <b>\$2,810,200</b>
Total Intangible Costs	\$1,059,200	21,131,000	52,810,200
Tangibles			
Well Equipment Lease Equipment	\$36,000	\$764,275 \$36,500	\$800,275 \$36,500
Total Tangible Well Cost	\$36,000	\$800,775	\$836,775
Nive and the star Cont	\$150,000	-\$150,000	\$0
Plug and Abandon Cost	3130,000	-3130,000	30
Total Well Cost	\$1,845,200	\$1,801,775	\$3,646,975
Comments on Well Costs  1. All tubulars, well or lease equipment is priced by  Well Control Insurance  Unless otherwise indicated below, you, as a non-op so long as Operator conducts operations hereunder insurance, you must provide a certificate of such insilater than commencement of drilling operations. Yo by insurance procured by Operator.  I elect to purchase my own well control Insurance policy.	COPAS and CEPS guidelines using the Historic grant gra	Price Multiplier.  Nered by Operator's well ms therefore. If you ele d limits, at the time this,	Control insurance procured by Operator ct to purchase your own well control AFE is returned, if available, but in no event
Comments on Well Costs  1. All tubulars, well or lease equipment is priced by  Well Control Insurance  Unless otherwise indicated below, you, as a non-op so long as Operator conducts operations hereunder insurance, you must provide a certificate of such insilater than commencement of drilling operations. You by insurance procured by Operator.  I elect to purchase my own well control insurance policy.  Well control insurance procured by Operator, providents.	copas and CEPS guidelines using the Historic erating working interest owner, agree to be comended and to pay your prorated share of the premius erance acceptable to Operator, as to form and to pay the certificate of the ce	Price Multiplier.  overed by Operator's wel ms therefore. If you ele d limits, at the time this, of insurance, as provider	Control insurance procured by Operator ct to purchase your own well control AFE is returned, if available, but in no event d herein, will result in your being covered
Well Control Insurance Unless otherwise indicated below, you, as a non-op so long as Operator conducts operations hereunder insurance, you must provide a certificate of such insilater than commencement of drilling operations. You by insurance procured by Operator.  I elect to purchase my own well control Insurance policy.	copas and CEPS guidelines using the Historic erating working interest owner, agree to be comended and to pay your prorated share of the premius erance acceptable to Operator, as to form and to pay the certificate of the ce	Price Multiplier.  overed by Operator's wel ms therefore. If you ele d limits, at the time this, of insurance, as provider	Control insurance procured by Operator ct to purchase your own well control AFE is returned, if available, but in no event d herein, will result in your being covered
Comments on Well Costs  1. All tubulars, well or lease equipment is priced by  Well Control Insurance  Unless otherwise indicated below, you, as a non-op so long as Operator conducts operations hereunder insurance, you must provide a certificate of such insilater than commencement of drilling operations. You by insurance procured by Operator.  I elect to purchase my own well control insurance policy.  Well control insurance procured by Operator, providents.	erating working interest owner, agree to be co and to pay your prorated share of the premiu surance acceptable to Operator, as to form an ou agree that failure to provide the certificate des, among other terms, for \$20,000,000 (100) overling drilling (through completion) with a \$1, to the completion of this AFE, the verbilling granted. By approval of this AFE, the verbilling granted.	Price Multiplier.  overed by Operator's well ms therefore. If you ele d limits, at the time this of insurance, as provided W.I.) of Combined Sing, 000,000 (100% W.I.) dec e change in plans. The a	Il control insurance procured by Operator ct to purchase your own well control AFE is returned, if available, but in no event d herein, will result in your being covered gle Limit coverage for well control and fuctible.
Well Control Insurance.  Unless otherwise indicated below, you, as a non-op so long as Operator conducts operations hereunder insurance, you must provide a certificate of such inslater than commencement of drilling operations. You by insurance procured by Operator.  I elect to purchase my own well control Insurance policy.  Well control insurance procured by Operator, provirelated redrilling and clean-up/pollution expense control insurance policy.  Comments on AFE  The above costs are estimates only and anticipate to without affecting the authorization for expenditure	copas and CEPS guidelines using the Historic decrease when the provide the premius grance acceptable to Operator, as to form and to pay your prorated share of the premius grance acceptable to Operator, as to form and the provide that failure to provide the certificate des, among other terms, for \$20,000,000 (100) overling drilling (through completion) with a \$1 provide free operations without any foreseeable herein granted. By approval of this AFE, the verterm of the joint operating agreement, regular	Price Multiplier.  wered by Operator's wel ms therefore. If you ele d limits, at the time this, of insurance, as provider W.I.) of Combined Sing, 000,000 (100% W.I.) dec e change in plans. The a vorking interest owner a latory order or other appli	Il control insurance procured by Operator ct to purchase your own well control AFE is returned, if available, but in no event d herein, will result in your being covered gle Limit coverage for well control and fuctible.
Well Control Insurance Unless otherwise indicated below, you, as a non-op so long as Operator conducts operations hereunder insurance, you must provide a certificate of such insilater than commencement of drilling operations. You by insurance procured by Operator.  I elect to purchase my own well control insurance policy. Well control insurance procured by Operator, provirelated redrilling and clean-up/pollution expense control insurance policy.  Comments on AFE The above costs are estimates only and anticipate to without affecting the authorization for expenditure actual legal, curative, regulatory and well costs under the control insurance policy.	erating working interest owner, agree to be co and to pay your prorated share of the premiu surance acceptable to Operator, as to form an ou agree that failure to provide the certificate des, among other terms, for \$20,000,000 (100) overling drilling (through completion) with a \$1, to the completion of this AFE, the verbilling granted. By approval of this AFE, the verbilling granted.	Price Multiplier.  overed by Operator's wel ms therefore. If you ele d limits, at the time this of insurance, as provided W.I.) of Combined Sing 000,000 (100% W.I.) dec e change in plans. The a vorking interest owner a latory order or other ap	Il control insurance procured by Operator ct to purchase your own well control AFE is returned, if available, but in no event d herein, will result in your being covered gle Limit coverage for well control and fuctible.
Comments on Well Costs  1. All tubulars, well or lease equipment is priced by  Well Control Insurance  Unless otherwise indicated below, you, as a non-op so long as Operator conducts operations hereunder insurance, you must provide a certificate of such insilater than commencement of drilling operations. You by insurance procured by Operator.  I elect to purchase my own well control insurance policy.  Well control insurance procured by Operator, provirelated redrilling and clean-up/pollution expense control insurance policy.  Comments on AFE  The above costs are estimates only and anticipate to without affecting the authorization for expenditure actual legal, curative, regulatory and well costs under the property of the prop	copas and CEPS guidelines using the Historic careful guidelines using the Historic careful guidelines using the Historic careful guidelines where the premius careful guidelines to provide the premius careful guidelines and to pay your prorated share of the premius careful guidelines are to provide the certificate care careful guidelines are the provided the certificate des, among other terms, for \$20,000,000 (100) overling drilling (through completion) with a \$1 couple free operations without any foreseeable herein granted. By approval of this AFE, the wester term of the joint operating agreement, regulations.	Price Multiplier.  wered by Operator's wel ms therefore. If you ele d limits, at the time this, of insurance, as provided  W.I.) of Combined Sing, 000,000 (100% W.I.) dec e change in plans. The a vorking interest owner a llatory order or other app	Il control insurance procured by Operator ct to purchase your own well control AFE is returned, if available, but in no event d herein, will result in your being covered gle Limit coverage for well control and fuctible.  Ctual costs may exceed the estimated costs grees to pay its proportionate share of plicable agreement covering this well.
Comments on Well Costs  1. All tubulars, well or lease equipment is priced by  Well Control Insurance  Unless otherwise indicated below, you, as a non-op so long as Operator conducts operations hereunder insurance, you must provide a certificate of such insilater than commencement of drilling operations. You by insurance procured by Operator.  I elect to purchase my own well control insurance policy.  Well control insurance procured by Operator, provirelated redrilling and clean-up/pollution expense control insurance policy.  Comments on AFE  The above costs are estimates only and anticipate to without affecting the authorization for expenditure actual legal, curative, regulatory and well costs under the property of the prop	copas and CEPS guidelines using the Historic careful guidelines using the Historic careful guidelines using the Historic careful guidelines where a gree to be considered and to pay your prorated share of the premius gurance acceptable to Operator, as to form an operator and the cartificate careful guidelines and the cartificate des, among other terms, for \$20,000,000 (100) overling drilling (through completion) with a \$1.  Touble free operations without any foreseeable herein granted. By approval of this AFE, the wester term of the joint operating agreement, regular careful guidelines and Completion Manager.	Price Multiplier.  wered by Operator's wel ms therefore. If you ele d limits, at the time this, of insurance, as provided  W.I.) of Combined Sing, 000,000 (100% W.I.) dec e change in plans. The a vorking interest owner a llatory order or other app	Il control insurance procured by Operator ct to purchase your own well control AFE is returned, if available, but in no event d herein, will result in your being covered gle Limit coverage for well control and fuctible.  ctual costs may exceed the estimated costs grees to pay its proportionate share of plicable agreement covering this well.
Comments on Well Costs  1. All tubulars, well or lease equipment is priced by  Well Control Insurance  Unless otherwise indicated below, you, as a non-op so long as Operator conducts operations hereunder insurance, you must provide a certificate of such insilater than commencement of drilling operations. You by insurance procured by Operator.  I elect to purchase my own well control insurance policy.  Well control insurance procured by Operator, provirelated redrilling and clean-up/pollution expense control insurance policy.  Comments on AFE  The above costs are estimates only and anticipate to without affecting the authorization for expenditure actual legal, curative, regulatory and well costs under the property of the prop	copas and CEPS guidelines using the Historic careful guidelines using the Historic careful guidelines using the Historic careful guidelines where a gree to be considered and to pay your prorated share of the premius gurance acceptable to Operator, as to form an operator and the cartificate careful guidelines and the cartificate des, among other terms, for \$20,000,000 (100) overling drilling (through completion) with a \$1.  Touble free operations without any foreseeable herein granted. By approval of this AFE, the wester term of the joint operating agreement, regular careful guidelines and Completion Manager.	Price Multiplier.  wered by Operator's wel ms therefore. If you ele d limits, at the time this, of insurance, as provided  W.I.) of Combined Sing, 000,000 (100% W.I.) dec e change in plans. The a vorking interest owner a llatory order or other app	Il control insurance procured by Operator ct to purchase your own well control AFE is returned, if available, but in no event d herein, will result in your being covered gle Limit coverage for well control and fuctible.  Ctual costs may exceed the estimated costs grees to pay its proportionate share of plicable agreement covering this well.
Well Control Insurance Unless otherwise indicated below, you, as a non-op so long as Operator conducts operations hereunder insurance, you must provide a certificate of such insilater than commencement of drilling operations. You by insurance procured by Operator, proving the left to purchase my own well control insurance policy.  Well control insurance procured by Operator, proving the left to purchase my own well control insurance policy.  Well control insurance procured by Operator, proving the left to purchase my own well control insurance policy.  Comments on AFE  The above costs are estimates only and anticipate to without affecting the authorization for expenditure actual legal, curative, regulatory and well costs under the legal of the legal	copas and CEPS guidelines using the Historic careful guidelines using the Historic careful guidelines using the Historic careful guidelines of the premiusurance acceptable to Operator, as to form and purious agree that failure to provide the certificate des, among other terms, for \$20,000,000 (100) overling drilling (through completion) with a \$1 couble free operations without any foreseeably herein granted. By approval of this AFE, the verterm of the joint operating agreement, regulating agreement, regulating and Completion Manager.	Price Multiplier.  wered by Operator's wel ms therefore. If you ele d limits, at the time this, of insurance, as provided  W.I.) of Combined Sing, 000,000 (100% W.I.) dec e change in plans. The a vorking interest owner a llatory order or other app	Control insurance procured by Operator ct to purchase your own well control AFE is returned, if available, but in no event d herein, will result in your being covered gle Limit coverage for well control and fuctible.  Ctual costs may exceed the estimated costs grees to pay its proportionate share of plicable agreement covering this well.



### Project Cost Estimate

Lease Name:

Mallon 34 Federal Com

Well No.:

18

		Dry Hole Cost	Postal Programme and the second secon	After Casing Point	Completed Well
Intangibles	Codes	make aleas		Point	Cost
Roads & Location Preparation / Restoration	0100.100	\$50,000	OICC,100		\$50,000
Damages	DIDC.205 1	\$1,000	0100.105		\$1,000
Mud / Fluids Disposal Charges	) DIDC.2.55	\$65,000	DICC,235	\$52,500	\$117,500
Day Rate 39 DH Days 8 ACP Days @ 12,000 Per Day	0100.113	\$468,000	DICC.120	\$96,000	\$564,000
Misc Preparation Cost (mouse hole, rat hole, pads, pile clusters, misc.)	0100.120	\$9,000	naaaa	WWWW.	\$9,000
Bits	910C.125	\$23,000	OICC.125	\$1,000	\$24,000
Fuel \$2.55 Per Gallon 700 Gallons Per Day	0100.125	\$90,000	DICC"730	\$12,000	\$102,000
Water / Completion Fluids Per Day	DIDG.340	\$70,200		\$61,500	\$131,700
Mud & Additives	01DC.145		UNIUM.	MANAKA PARAMANANA PARAMANANANA PARAMANANA PARAMANANANA PARAMANANA PARAMANANANA PARAMANANA PARAMANANANA PARAMANANANA PARAMANANANA PARAMANANANA PARAMANANANA PARAMANANANANANANANA PARAMANANAN	\$39,000
Surface Rentals ' Per Day	0100.250	\$61,000		\$84,000	\$145,000
Downhole Rentals	DIDC.155	\$88,000	DICC.::45	\$74,000	\$162,000
Formation Evaluation (DST, Caring Including evaluation, G&G Services)	0100.1.60				\$0
Mud Logging \$850: Days @ 32 Per Day	2I2C.170	\$31,000		948964A	\$31,000
Open Hole Logging	DIOC.100	\$15,000	SHANN S	USBABBAR.	\$15,000
Cementing & Float Equipment	0100.385	\$15,000	OICC.255	\$50,000	\$65,000
Tubular Inspections	0000,190	\$5,000	0100,160	\$3,000	\$8,000
Casing Crews	0100.195	\$10,000	01CC.16S	\$15,000	\$25,000
Extra Labor, Welding, Etc.	0100.200	\$31,000	0/55,170	\$5,000	\$36,000
Land Transporation (Trucking)	DIOC.209	\$20,000		\$9,000	\$29,000
Supervision Per Day	0104.210	\$59,000	0100.180	\$26,000	\$85,000
Trailer House / Comp / Catering Per Day	0100,280	\$23,000		\$4,000	\$27,000
Other Misc Expenses	DIDC.220	\$11,000		\$7,000	\$18,000
Overhead 300 Per Day	DIDC.225	\$12,000	260,295	\$11,000	\$23,000
Remedial Cementing	DIDC.231		OICC.215		\$0
MOB/DEMOB	0100.240	\$60,000	and the second	anam.	\$60,000
Directional Drilling Services 12 Days @ 8,200 Per Day	0100.245	\$140,000	Mada	MANAGE STATE OF THE STATE OF TH	\$140,000
Dock, Dispatcher, Crane	0100.250		OICC.230	j	\$0
Marine & Air Transportation	DIDC.275		DICC.250	į	\$0
Solids Control Per Day	DIDC.260	\$88,000	Mala		\$88,000
Well Control Equip (Snubbing Svcs.)	DIDC.265	\$90,000	0/CC.340	\$26,000	\$116,000
Fishing & Sidetrack Operations	DIOC.270	\$0	QICC.245		\$0
Completion Rig 17 Days @ 3,400 Per Day	_200000		0(00.135	\$70,000	\$70,000
Coll Tubing 1: Days @ 33,000 Per Day	_00000		DICC.260	\$33,000	\$33,000
Completion Logging, Perforating, WL Units, WL Surveys	_200000	900000	005.200	\$10,000	\$10,000
Stimulation			0100.210	\$427,000	\$427,000
Legal / Regulatory / Curative	DIDC.300	\$1,000	DICC.230		\$1,000
Well Control Insurance \$0.35 Per Foot	0100.285	\$5,000	(Deletale)		\$5,000
Contingency 5% of Drilling Intongibles	DIDC.435	\$79,000	DICC.220	\$54,000	\$133,000
Construction For Well Equipment	6711677	27/18/8/8/8	OWEA.2.20	\$20,000	\$20,000
Construction For Lease Equipment	700000	UHHHH	0LEQ.110	\$0	\$0
Construction For Sales P/L			D100.205		\$0
Total Intangible Cost		\$1,659,200		\$1,151,000	\$2,810,200
			1070.7-227-7		

- The state of the	of a position of the	ern arrende entre erda	an Amelica fact	ntroite statistic con	a baller ferre ery services		A Count death with a	
Tangible - Well Equipment Casing	Size	Feet	\$ / Foot		376076767777	1000000	enimmim	minima
Drive Pipe	20 "	40.00	\$0.00		<i>SO</i>		MAHAMA	anananan
Conductor Pipe	<del></del>	70.00	70,00	DWEB.1.20	\$0		88988888888888888888888888888888888888	\$0 \$0
Water String				OWES.135	\$0		99898800 -	\$0 \$0
Surface Casing	13-3/8"	<del></del>	\$0.00		\$0		<i>9999999</i> 99	\$0
Intermediate Casing	8-5/8"	1485.00	\$24.31		\$36,000		99999995-	\$36,000
Drilling Uner	10.5/0	2405.00	744.01	DW65.145	\$30,080		amana.	\$30,000
Drilling Liner	<del></del>			DW68.145	50			\$0 \$0
Production Casina or Liner	7"	11200.00	\$29.37		THE PROPERTY OF THE PARTY OF TH	DWEA.100	\$329,000	\$329,000
Production Tie-Back	3 1/2"	5000.00	<u> </u>			DWEA-100	\$66,275	\$66,275
Tubing	2 7/8"	10200.00	\$8.03			DWEA.105	\$82,000	\$82,000
N/C Well Equipment						DWEA.115	\$20,000	\$20,000
Wellhead, Tree, Chokes				DWED.115	SCHOOL PLANTED BY STATE OF THE S	OWEA.120	\$10,000	\$10,000
Liner Hanger, Isolation Packer				DWE6.100		DWGA.125	\$1,000	\$1,000
Packer, Nipples					TO THE WATER	OWEA.130	\$110,000	\$110,000
Pumping Unit, Engine						DUEC_100	\$98,000	\$98,000
Uft Equipment (BHP, Rods, Anchors)						DUEO, 105	\$48,000	\$48,000
Tangible - Lease Equipment		Media mangrapa	* 1.7v.	renement of			e la salatificación	
N/C Lease Equipment						DUEQ.115	sol	\$0
Tanks, Tanks Steps, Stairs						DUEQ.3.20	\$20,000	\$20,000
Battery (Heater Treater, Separator, Gas Treating Equipment)						OLEO, 125	\$15,000	\$15,000
Flow Lines (Line Pipe from wellhead to central facility)						DLCO,130	\$1,500	\$1,500
Offshore Production Structure for Facilities						DW6A.125	¥-/	\$0
Pipeline to Sales				11.61.11	111111111111111111111111111111111111111	OMEA,340		\$0
Total Tangibles					\$36,000		\$800,775	\$836,775
	: Na da paragonal de la constantia de la			tuerner travel	Water to Water the		A STATE OF THE PARTY OF THE PAR	
P&A COSIS				010C.295	\$150,000	O1CC.275	-\$150,000	\$0
Total Cost					\$1,845,200		\$1,801,775	\$3,646,975

#### Cimarex Energy Co.

600 N. Marienfeld St. Suite 600 Midland, Texas 79701 PHONE 432.571.7800



July 17, 2009

### <u>Via: U.S. Certified Mail</u> <u>Return Receipt No. 7007 0710 0003 0317 4073</u>

Fuel Products, Inc. Attn: Thomas M. Beall P.O. Box 3098 Midland, Texas 79702

### Via: E-mail U.S. Certified Mail Return Receipt No. 7007 0710 0003 0317 4080

MGT Partners I, L.P., et al. Attn: John Stroud 13727 Noel Road, Suite 500 Dallas, Texas 75240

### Via: E-mail and U.S. Certified Mail Return Receipt No. 7007 0710 0003 0317 4059

Pear Resources Attn: Alan Byars/Jerry M. Gahr P.O. Box 11044 Midland, Texas 79702

### <u>Via: U.S. Certified Mail</u> <u>Return Receipt No. 7007 0710 0003 0317 4103</u>

Michael J. Moncrief 2008 Trust A Attn: Jerry Goodwin, CPA 777 Taylor Street, Suite 1030 Fort Worth, Texas 76102

Re: Mallon 34 Federal No. 19 S/2N/2 Section 34-T19S-34E Lea County, New Mexico

### Dear Working Interest Owners:

Cimarex Energy Co. ("Cimarex") proposes to drill the above-captioned well according to the project described in the enclosed AFE. If you choose to participate in the drilling of the well, please sign and return a copy of the AFE to the undersigned. I will send Cimarex's proposed form of operating agreement to you upon receipt of your approved AFE. Alternatively, if you choose not to participate,

### <u>Via: E-mail U.S. Certified Mail</u> <u>Return Receipt No. 7007 0710 0003 0317 4066</u>

Hyde Oil and Gas Corporation Attn: Blair Hamburg 6300 Ridglea Place, Suite 1018 Fort Worth, Texas 76116

### Via: E-mail U.S. Certified Mail Return Receipt No. 7007 0710 0003 0317 4035

U.S. Trust, Bank of America Attn: Janet M. Cunningham, CPL P.O. Box 2546 Fort Worth, Texas 76113-2546

### <u>Via: U.S. Certified Mail</u> <u>Return Receipt No. 7007 0710 0003 0317 4042</u>

W.A. Moncrief, Jr. Trust Attn: Monita Cebell 950 Commerce Street Fort Worth, Texas 76102-5418



Cimarex would be interested in acquiring a farmout of your leasehold interest in Section 34 of the above-captioned township and range.

Please do not hesitate to contact me if there is anything further that you should require in regard to this matter. Thank you.

Sincerely,

Cimarex Energy Co.

Hayden P. Tresner

Landman



### **Authorization For Expenditure**

Company Entity Cimarex Energy C							Date Pr	pared July 1	L6, 2009
Region (1)	Well Nam		Well No.	Prospect or Field	Name	Property Number		Drillin	AFE No.
Permian	Mallon 34 Fed	Jeral	19						
a die a Leberatea des	Carlora Names Core Processor	to respect to the	na proposition de	County	urranio accepta	State	Wil Versey	Tvo	a Voránski ser se, s tudě se
Location	STANDARD WAS SECURED.	isylvallesi (s. par	en personale de la companya de la c	:		WANTED STREET,	Oil	X	Expl x
S/2N/2 Section 34	1-195-34E			Lea	1	NM	Gas		Prod
	2010 P. 10 C. M. 10 C. 54 C. 2 A	organista kan	designation :	st Start Date	on concentrati	Cama Dava	da weste rece.	and the same	Est. TD.
Estimate Type:::: Original Estimate		•		SUSCENCE OF THE SUSCENCE OF THE SUSCENERAL PROPERTY OF THE SUSCENERAL PROPE	A 2 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1	COUNTRACTOR	NO DOCUMENTAL	HILLIANDIF	200 Marie 151-161 Days (17)
Revised Estimate		0	_				Bo	ne Spring	15,046'
Supplemental Esti	mate	0	<u>:</u>		·		<del></del>		<u> </u>
Project Descriptio	n	SPANA			AMERICAN	entration consu			
Drill and complete	a third Bone Spring	norizontal v	veii. 11200 P	llot 10840 TVD/15046 f	ию (4500 <b>v</b> 5).				
				On Unio Con		Affa-Caria	0-1-4		-1 (1)(-)(
Intangibles Drilling Costs				Dry Hole Cos \$1,659,200	<u> </u>	After Casing	Point	Con	\$1,659,200
Completion Costs						\$1,151,0			\$1,151,000
Total intangible C	osts			\$1,659,200		\$1,151,0	00		\$2,810,200
Tangibles									
Well Equipment				\$36,000		\$764,27	5	1	\$800,275
Lease Equipment				<u> </u>	0.000h	\$36,500			\$36,500
Total Tangible We	ell Cost		**	\$36,000		\$800,77	5	20 <del>2.7"</del>	\$836,775
Plug and Abandor	n Cost			\$150,000		-\$150,00	ю		\$0
Total Well Cost				\$1,845,200		\$1,801,7	75		\$3,646,975
1. All tubulars, we	ell or lease equipmen	t is priced b	y COPAS and	I CEPS guidelines using	the Historic Pi	rice Multiplier.			
Unless otherwise is to long as Operatr insurance, you mu later than comme by insurance procing I elect to purcha.	indicated below, you or conducts operation ist provide a certifica neement of drilling o ured by Operator. se my own well control ins ance procured by Op	, as a non-o ns hereunde te of such ir perations. Y surance policy. erator, prov	perating wor er and to pay nsurance acc You agree th rides, among	king interest owner, ag your prorated share of eptable to Operator, as at failure to provide the other terms, for \$20,00 ing (through completion	ree to be cover the premium to form and le certificate of	ered by Operator's stherefore. If you imits, at the time to insurance, as proving the combined will) of Combined	well control elect to pu his AFE Is r ided hereli Single Limi	ol insurance parchase your of the eturned, if aven, will result in the eturned of	rocured by Operator own well control allable, but in no even n your being covered
comments on AFE				THE PROPERTY OF THE	electronic		199-4	The French	u a se e e e e e
without affecting t	the authorization for	expenditure	e herein grar	operations without any sted. By approval of thi he joint operating agree	s AFE, the wo	rking interest own	er agrees to	pay its prop	ortionate share of
				Cimarex Energy C	o. Approva	[			
repared by : 👭			Drilling and	Completion Manager	NEW PARK	Regional	Manager.		
Aark Audas Engineer -	PB		Doug Park, Mg	pr Operations PB		Roger Alax	ander, Region	el Manager PB	- M1212 C- 1122
				Joint Interest	Approval				
Company (			Ву	新新了了ATT多中的新了。		Date			



### **Project Cost Estimate**

tease Name: Mallon 34 Federal			W	ell No.:	19			
Intangibles & 198					Dry Hole Cost	b a set		Completed Well
The second of th	CONTRACTOR N	1 a a		· Codes	· 医二种 医	- Codes	Point	- Cost
Roads & Location Preparation / Restoration				0100.100	\$50,000			\$50,000
Damages				DIDC.105	\$1,000 \$65,000		\$52,500	\$1,000
Mud / Fluids Disposal Charges	ACO 0 6	12,000	Day Day	DIDC.255	\$468,000		\$96,000	\$117,500
	ACP Days @	12,000	Per Day	DIDC.135	\$9,000	A POST OF THE PARTY OF THE PARTY.	\$90,000	\$564,000
	Misc Preparation Cost (mouse hole, rat hole, pads, pile clusters, misc.)							\$9,000
Bits CO FOLO. G. H.		C-# B B-		010C.125	\$23,000		\$1,000 \$12,000	\$24,000
Fuel \$2.55 Per Gallon	) /00	Gallons Per Do	Per Day	DIDC.135	\$90,000 \$70,200		\$61,500	\$131,700
Water / Completion Fluids			rei Duy	DIDC.140		WWW.	CHARLES OF THE PARTY OF THE PARTY OF THE PARTY.	
Mud & Additives		<del></del>	Per Day	0:00.145	\$61,000	******	\$84,000	\$39,000
Surface Rentals			rei buy	DiDC.150				\$145,000
Downhole Rentals	-t' CCC Cdd			DIDC.3.55	\$88,000	OKCC.145	\$74,000	\$162,000
Formation Evaluation (DST, Coring including evalu		22	Per Day	0100.160	\$31,000		SHANNIN S	\$0
Mud Logging	\$850 Days @	32!	Per Day	010C.170	\$15,000			
Open Hole Logging	<del> </del>			DIDC.180				\$15,000
Cementing & Float Equipment				O(OC.18.5	\$15,000		\$50,000	\$65,000
Tubular Inspections				0100,190	\$5,000		\$3,000	\$8,000
Casing Crews				DIDC.398	\$10,000		\$15,000	\$25,000
Extro Labor, Welding, Etc.				0100.200	\$31,000		\$5,000	\$36,000
Land Transporation (Trucking)		<del></del>		0100.205	\$20,000		\$9,000	\$29,000
Supervision		<del></del>	Per Day	0100.210	\$59,000		\$26,000	\$85,000
Trailer House / Camp / Catering		i	Per Day	0100.280	\$23,000		\$4,000	\$27,000
Other Misc Expenses				0100.220	\$11,000		\$7,000	\$18,000
Overhead	<u> </u>	300	Per Doy	0100.005	\$12,000		\$11,000	\$23,000
Remedial Cementing				010C.231		0100.215		\$0
MOB/DEMOB				0100.346	\$60,000			\$60,000
Directional Drilling Services	12 Days @	8,200	Per Day	DID-0.245	\$140,000			\$140,000
Dock, Dispatcher, Crane				0(0C.250		DICC.230		50
Marine & Air Transportation				DIDC.275		DICC.250		\$0
Solids Control			Per Day	DIDC.250	\$88,000			\$88,000
Well Control Equip (Snubbing Svcs.)				0100.265	\$90,000	DIGC.240	\$26,000	\$116,000
Fishing & Sidetrack Operations				0100.270	\$0	DICC.345		\$0
Completion Rig	17 Days @	3,400	Per Day			0(00.315	\$70,000	\$70,000
Coil Tubing	1 Days @	33,000	Per Day			DICC.260	\$33,000	\$33,000
Completion Logging, Perforating, WL Units, WL Su						DICC.200	\$10,000	\$10,000
Stimulation						DICC.210	\$427,000	\$427,000
Legal / Regulatory / Curative	····			010C.300	\$1,000		,,	\$1,000
	Per Foot			DIDC.385	\$5,000			\$5,000
Contingency 5% of Drilling				DIDC,435	\$79,000		\$\$4,000	\$133,000
Construction For Well Equipment	mitorigio/E3			THIN THE	THIN THE PARTY OF T	DWEA.110	\$20,000	\$20,000
Construction For Lease Equipment						OLEQ.110	\$0	\$20,000
Construction For Sales P/L						D:CC.265	70	50
Total Intangible Cost				SECTION STAY	\$1,659,200	0000.265	\$1,151,000	\$2,810,200
Total Incangible Cost					\$2,055,200		\$1,131,000	\$2,810,200
Tangible - Well Equipment	Section of the control of	ra Aar	gir Carrie	<b>电影的影响</b>	53100 178 s	70 3	3 11 17 17	564
Casing	Size	Feet	\$/Foot	annann e		minin	mminim	
Drive Pipe	20 "	40.00	\$77000	DIVES.150	<i>00000000</i> so			
	20	40.00	30.00	OWE8.130	\$0	46.4646	444444	\$0 \$0
Conductor Pipe								
Water String	10.0 (0)			DWE8.135	\$0			\$0
Surface Casing	13-3/8"		\$0.00		\$0			\$0
Intermediate Casing	8-5/8*	1485.00	\$24.31		\$36,000			\$36,000
Drilling Liner				OWEE.145	\$0	MAMA		\$0
Drilling Liner			2 4 2 1 1 2 4 1	OWEE.145	\$0			\$0
Production Casing or Liner	7"	11200.00	\$29.37			DWEA.100		\$329,000
Production Tie-Back	3 1/2"	5000.00		WWW.		OWE4,100	\$66,275	\$66,275
Tubing	2 7/8"	10200.00	\$8.03	MANA BARARA		OWEA.105	\$82,000	\$82,000
N/C Well Equipment				MANDA	461616161616161616161616161616161616161	OWE4.115	\$20,000	\$20,000
Wellhead, Tree, Chakes				DWEE.115		DWEA.120	\$10,000	\$10,000
Liner Hanger, Isolation Packer				DWE6.100		251.A3WC	\$1,000	\$1,000
Packer, Nipples						OWEA.130	\$110,000	\$110,000

P&A Costs				DIDC.395	\$150,000	DICC.275	-\$150,000	\$0
Total Tangibles	5	=1-+ 14,471 T-18-71	<u> </u>	÷.,	\$36,000		\$800,775	\$836,775
Pipeline to Sales				<i>(1111/1911</i> )	MANAGAN PARAMANAN P	01/VEA.140	1	\$0
Offshore Production Structure for Facilities	·				alle la	DWEA.135		\$0
Flow Lines (Line Pipe from wellhead to central facility)		<del></del>				DLFQ,130	\$1,500	\$1,500
Battery (Heater Treater, Separator, Gas Treating Equipment,	<u> </u>					DLEQ,123	\$15,000	\$15,000
Tanks, Tanks Steps, Stairs						OLEQ.120	\$20,000	\$20,000
N/C Lease Equipment						DLEQ.115	\$0	\$0
Tangible - Lease Equipment	於選 赞 等					<b>3</b> . 3 19 6	480 C. S. S.	1 10.14 2
Lift Equipment (BHP, Rods, Anchors)						DUEQ.105	\$48,000	\$48,000
Pumping Unit, Engine						D1607700	\$98,000	\$98,000
Packer, Nipples						DWEA.130	\$110,000	\$110,000
Liner Hanger, Isolation Packer	~			DWE6.100	}	DWEA.125	\$1,000	\$1,000
Wellhead, Tree, Chokes				DWE6.115	!	DW5A.120	\$10,000	\$10,000
N/C Well Equipment		·	·			OWE4.115	\$20,000	\$20,000
Tubing	2 7/8"	10200.00	<del></del>	mm		OWEA.105	\$82,000	\$82,000
Production Tie-Back	3 1/2"	5000.00	300 000			OWE4.100	\$66,275	\$66,275
Production Casing or Liner	7"	11200.00	\$29.37			DWEA.100	\$329,000	\$329,000
Drilling Liner	1000	·	27 4 27 17 2 4	DW 50.145	\$0	100000000000000000000000000000000000000	<i>49999999</i> 5-	50
Drilling Liner	- 100,0	-	*****	DWEE.145	\$0			\$0
Intermediate Casing	8-5/8"	1485.00			\$36,000			\$36,000
Surface Casing	13-3/8"	1 .	\$0.00		\$0			\$0
Water String	<del></del>	1		DWE8.135	\$0 \$0		<i>9999999</i> 9	\$0 \$0

#### Cimarex Energy Co.

600 N. Marienfeld St. Suite 600 Midland, Texas 79701 PHONE 432.571.7800

July 17, 2009



Fuel Products, Inc. Attn: Thomas M. Beall P.O. Box 3098 Midland, Texas 79702

### <u>Via: E-mail U.S. Certified Mail</u> <u>Return Receipt No. 7007 0710 0003 0317 4080</u>

MGT Partners I, L.P., et al. Attn: John Stroud 13727 Noel Road, Suite 500 Dallas, Texas 75240

### Via: E-mail and U.S. Certified Mail Return Receipt No. 7007 0710 0003 0317 4059

Pear Resources Attn: Alan Byars/Jerry M. Gahr P.O. Box 11044 Midland, Texas 79702

### <u>Via: U.S. Certified Mail</u> <u>Return Receipt No. 7007 0710 0003 0317 4103</u>

Michael J. Moncrief 2008 Trust A Attn: Jerry Goodwin, CPA 777 Taylor Street, Suite 1030 Fort Worth, Texas 76102

Re: Mallon 34 Federal No. 20 N/2N/2 Section 34-T19S-34E Lea County, New Mexico

#### Dear Working Interest Owners:

Cimarex Energy Co. ("Cimarex") proposes to drill the above-captioned well according to the project described in the enclosed AFE. If you choose to participate in the drilling of the well, please sign and return a copy of the AFE to the undersigned. I will send Cimarex's proposed form of operating agreement to you upon receipt of your approved AFE. Alternatively, if you choose not to participate,



### <u>Via: E-mail U.S. Certified Mail</u> <u>Return Receipt No. 7007 0710 0003 0317 4066</u>

Hyde Oil and Gas Corporation Attn: Blair Hamburg 6300 Ridglea Place, Suite 1018 Fort Worth, Texas 76116

### Via: E-mail U.S. Certified Mail Return Receipt No. 7007 0710 0003 0317 4035

U.S. Trust, Bank of America Attn: Janet M. Cunningham, CPL P.O. Box 2546 Fort Worth, Texas 76113-2546

### <u>Via: U.S. Certified Mail</u> <u>Return Receipt No. 7007 0710 0003 0317 4042</u>

W.A. Moncrief, Jr. Trust Attn: Monita Cebell 950 Commerce Street Fort Worth, Texas 76102-5418



Cimarex would be interested in acquiring a farmout of your leasehold interest in Section 34 of the above-captioned township and range.

Please do not hesitate to contact me if there is anything further that you should require in regard to this matter. Thank you.

Sincerely,

Cimarex Energy Co.

Hayden P. Tresner

Landman



### **Authorization For Expenditure**

Company Entity Gimarex Energy Co.				C	ate Prepared .	July 16, 2009		
	Well No.	Prospect or Field Name	Property	Number "	44.5 97.509 to 10	orilling AFE No.		
Region Well Name Permian Mallon 34 Federal	20	TO Spect of Rield Name :	A CONTRACTOR	VOIMOEI	e de la companya de	Animing Ar E 140.		
remail mains of each				<u> </u>		<del></del>		
Location	(四)	County	Stat		THE STATE OF	Type Well		
N/2N/2 Section 34-19S-34E		Lea	NN	n	ias i	x Expl	×	
			·					
Estimate Type  Original Estimate	E CONTRACTOR E	st.Start Date	t. Comp Dati	e.	Formation	Est	(D.S. 1)	
Revised Estimate O					Bone Sprin	g 15,04	16'	
Supplemental Estimate				i				
Project Description.  Drill and complete a third Bone Spring horizontal w		ilot 10840 TVD/15046 MD (4500 V	S).		#198 (FR)   No. 17	Balance Control		
Intangibles Online Costs		Dry Hale Cast \$1,659,200	Afte	r Casing Poir	nt	Completed Well ( \$1,659,200	Cost	
Orilling Costs Completion Costs		\$1,639,200	ļs	51,151,000		\$1,151,000		
Total Intangible Costs		\$1,659,200	\$	1,151,000		\$2,810,200		
Tangibles				<del></del>		······································		
Well Equipment		\$36,000		\$764,275		\$800,275		
Lease Equipment Total Tangible Well Cost	<del></del>	\$36,000		\$36,500 \$800,775	-	\$36,500 \$836,775		
Total (dipole trei cost								
Plug and Abandon Cost		\$150,000		-\$150,000		\$0		
Total Well Cost		\$1,845,200		1,801,775		\$3,646,975		
Well Control Insurance  Unless otherwise indicated below, you, as a non-operating working interest owner, agree to be covered by Operator's well control insurance procured by Operator so long as Operator conducts operations hereunder and to pay your prorated share of the premiums therefore. If you elect to purchase your own well control insurance procured by Operator so long as Operator conducts operations hereunder and to pay your prorated share of the premiums therefore. If you elect to purchase your own well control insurance, you must provide a certificate of such insurance acceptable to Operator, as to form and limits, at the time this AFE is returned, if available, but in no event later than commencement of drilling operations. You agree that failure to provide the certificate of insurance, as provided herein, will result in your being covered by insurance procured by Operator.  It elect to purchase my own well control insurance policy.  Well control insurance procured by Operator, provides, among other terms, for \$20,000,000 (100% W.I.) of Combined Single Limit coverage for well control and related redrilling and clean-up/pollution expense covering drilling (through completion) with a \$1,000,000 (100% W.I.) deductible.  Comments on AFE  The above costs are estimates only and anticipate trouble free operations without any foreseeable change in plans. The actual costs may exceed the estimated costs without affecting the authorization for expenditure herein granted. By approval of this AFE, the working interest owner agrees to pay its proportionate share of actual legal, curative, regulatory and well costs under term of the joint operating agreement, regulatory order or other applicable agreement covering this well.								
		Cimarex Energy Co. Appro	e primite property and the					
Prepared by		Completion Manager		Regional Mar				
Mark Audes Engineer - PB	Doug Park, M	gr Operations PB	ĮR	loger Alexander	, Regional Manage	r P8		
		Joint Interest Approval						
Company	Ву	Selventina (A. 10 a Karlija)		ate 🦖 💯	ter jarde, est	and the second	7	
:			and the co				}	
·						·		



Total Cost

#### **Project Cost Estimate**

Well No.: 20 Intangibles Roads & Location Preparation / Restoration 0100.100 \$50,000 DICC.100 \$50,000 510C.10\$ \$1,000 DICC.105 \$1,000 Damages DIDC.255 \$65,000 DICC.285 \$52,500 \$117,500 Mud / Fluids Disposal Charges Day Rate 39 DH Days 8 ACP Days @ 12,000 Per Day DIDC.115 \$468,000 DICC 120 596,000 \$564,000 \$9,000 Misc Preparation Cost (mouse hole, rot hole, pads, pile clusters, misc.) DIGC 120 \$9,000 Bits 010C.125 \$23,000 DICC.125 \$1,000 \$24,000 Fuel \$2.55 Per Gallon 700 Gallons Per Day 000C.125 \$90,000 0100,130 \$12,000 \$102,000 Per Day DIDC.140 \$70,2001 0000.135 \$61,500 \$131,700 Water / Completion Fluids \$39,000 0100,145 Mami \$39,000 Mud & Additives Surface Rentals Per Day 010C.150 \$61,000 bicc.140 \$84,000 \$145,000 \$88,000 0100 \$74,000 \$162,000 0/00.133 Downhole Rentals Formation Evaluation (DST, Coring including evaluation, G&G Services) DIDC.150 \$0 32 Per Day \$31,000 \$31,000 \$850 Days @ 0100,170 Mud Logging \$15,000 DIDC.180 \$15,000 Open Hale Logging 0100,185 \$15,000 0:00.155 \$50,000 \$65,000 Cementing & Float Equipment \$5,000 0100,160 \$3,000 \$8,000 0100.190 **Tubular Inspections** 0100.195 \$10,000 proc.165 \$15,000 \$25,000 Casing Crews \$31,000 Dicc.170 \$36,000 0100,200 \$5,000 Extra Labor, Welding, Etc. \$20,000 DICC.175 Land Transporation (Trucking) 0100.205 \$9,000 \$29,000 Per Day Supervision 0100.219 559,000 0/00,130 \$26,000 \$85,000 Trailer House / Comp / Catering Per Day 0100.286 \$23,000 picc.355 \$4,000 \$27,000 Other Misc Expenses 0100,220 \$11,000 DICC.190 \$7,000 \$18,000 300 Per Day DIDC.225 \$12,000 DICC.195 \$11,000 \$23,000 Overhead DICC 215 \$0 Remedial Cementing 0000.231 \$60,000 \$140,000 \$60,000 MOB/DEMOB 0100,240 12 Days @ 8,200 Per Day \$140,000 0000,245 Directional Drilling Services 9:DC:259 \$0 Dock, Dispatcher, Crone DICC.230 DIOC.275 \$0 Marine & Air Transportation Per Day 0000,260 \$88,000 588,000 Solids Control \$116,000 Well Control Equip (Snubbing Svcs.) DIDC.255 \$90,000 DICC.240 \$26,000 Fishing & Sidetrack Operations DIDC 270 SD DICC.245 SD 17 Days @ 3,400 Per Day 0,000,115 \$70,000 \$70,000 Completion Rig 33,000 Per Day 0100,260 \$33,000 \$33,000 Coil Tubing 1 Days @ Completion Logging, Perforating, WL Units, WL Surveys \$10,000 \$10,000 DICC.200 DICC.210 \$427,000 \$427,000 Stimulation DICC.230 \$1,000 Legal / Regulatory / Curative 0100,300 \$1,000 \$5,000 \$0.35 Per Foot \$5,000 0100,288 Well Control Insurance \$133,000 DIDC,435 \$79,000 Dicc.220 \$54,000 Contingency 5% of Drilling Intengibles \$20,000 Construction For Well Equipment D'A/EA.110 \$20,000 Construction For Lease Equipment OLEQ.110 \$0 \$0 Construction For Sales P/L DICC.26S SD **Total Intangible Cost** \$1,659,200 \$1,151,000 \$2,810,200 Tangible - Well Equipment \$ / Foot Casing Size Feet 20 40.00 \$0.00 DW88.150 \$0 \$0 Drive Pipe \$0 Conductor Pipe OWE8.130 \$0 Water String OWE8.133 SO \$0 13-3/8 \$0.00 DWES.340 \$0 Surface Casing \$0 8-5/8" 1485.00 \$24.31 OWES.145 \$36,000 \$36,000 Intermediate Casing Drilling Liner OWE8.345 SC 50 Drilling Liner OWE8.145 \$0 Production Casing or Liner 7" . 11200.00 \$29.37 \$329,000 \$329,000 DWEA.100 Production Tie-Back 3 1/2 5000.00 \$66,275 \$66,275 DWEA.100 Tubing 2 7/8" 10200.00 \$8.03 \$82,000 OWEA.105 \$82,000 N/C Well Equipment OWEA:115 \$20,000 \$20,000 Wellhead, Tree, Chokes OWE8.135 DW8A.120 \$10,000 \$10,000 OVER 10 Liner Hanger, Isolation Packer OWEA.125 \$1,000 \$1,000 Packer, Nipples \$110,000 \$110,000 OWEA.130 Pumping Unit, Engine \$98,000 \$98,000 DLEQ.100 Lift Equipment (BHP, Rods, Anchors) DUEC, 105 \$48,000 \$48,000 Tangible - Lease Equip N/C Lease Fauloment DLEO.135 SO SO \$20,000 Tanks, Tanks Steps, Stairs 0150,120 \$20,000 Battery (Heater Treater, Separator, Gas Treating Equipment) DLEO,125 \$15,000 \$15,000 Flow Lines (Line Pipe from wellhead to central facility) 0150,130 \$1,500 \$1,500 Offshore Production Structure for Facilities DWEA.135 \$0 Pipeline to Soles **DWEA.140** 50 **Total Tangibles** \$800,775 \$36,000 \$836,775 P&A Costs 0100,099 \$150,000 DICC.275 -\$150,000 50

\$3,646,975

\$1,801,775

\$1,845,200